

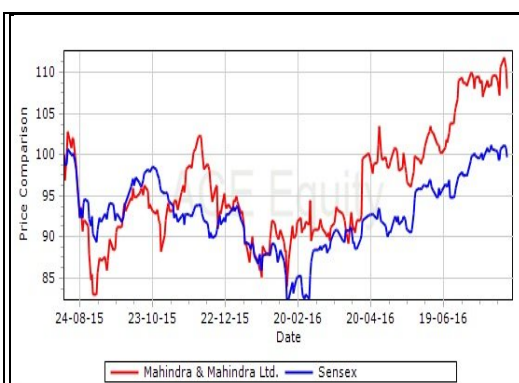
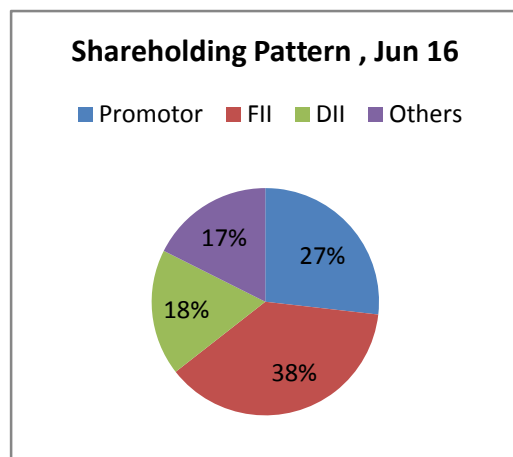
## Steady Performance!

11<sup>th</sup> August, 2016

CMP: Rs 1,428  
Target Price: Rs 1,360  
**Recommendation: Neutral**

Stock Info	
BSE Group	A
BSE Code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
BSE Sensex	27,697
NSE Nifty	8,575

Market Info	
Market Capital	Rs 89,924cr
Equity Capital	Rs 296cr
Avg Trading Volume	11,24,460
52 Wk High / low	Rs 1,508 /1,092
Face Value	Rs 5



### > Q1FY17 Revenue:

Net Revenue came at Rs 11,800 Crores, a growth of 14% on YoY basis. The gross revenue & other income of the combined entity for the quarter ended 30<sup>th</sup> June 2016 was Rs 11,942 cr as against Rs 10,470 cr in the corresponding quarter of previous year, a growth of 14.05%.

The combined entity has continued its leadership position in both utility vehicle segment & the domestic tractor market. Company has sold 1.10 lakhs units in Q1FY17. The company continued its leadership position in utility vehicles segment market share of 31.6%. Company has sold 71,785 tractors in domestic market, a YoY growth of 21% and it has continued leadership position with an increased market share of 43.9%. Company has exported 10,569 vehicles and 2,946 tractors.

### > Q1FY17 Profitability:

Operating EBITDA margin for Farm equipment segment was up at 18.8% vs. 17.7% on YoY basis. Margins for automotive segment decreased to 7.8% vs. 8.6% on YoY basis. Overall EBITDA margins for the quarter stood at 10.7% vs. 11.89% YoY. PAT was at Rs 955 crores vs. Rs 850 Crores, growth of 12.36% on YoY basis.

### > Outlook:

In the current quarter the utility vehicles market grew by 13.3%, with the LCV goods segment continued to grow on back of replacement demand, improvement in industrial activity and movement in infrastructure projects. GST has positive impact on Automobile Industry. 7<sup>th</sup> pay commission & OROP recommendations have positive impact on demand side of automobile Industry. Good Monsoon has positive impact for the company to accelerate sales of Tractor. Brexit will have negative impact on global economy. Higher tax rate leads to lower profit. Margins are going to remain subdued for new launches.

### > FINANCIALS & ESTIMATES:

We estimate M&M's Revenue growth at 14.4% and earnings growth at 9.0% in FY17E. We estimate M&M's EBITDA margins to average close to 11.3% for FY17E.

### > Valuation:

We value M&M based on SoTP valuations and we have a "NEUTRAL" rating on the stock: We value the core business at Rs987 per share, based on 17 (x) FY17E PE(x) based on EPS of Rs 58. We have valued total investments (listed and unlisted) at Rs 373 per share, with a holding company discount of 30%. Our SoTP value for stock comes at Rs 1,360 per share.

Source: Company data Ace Equity, Arian Research



**Financial Snpashot:**

Y/E March, (in Rs crore)	FY14	FY15	FY16	FY17E
<b>Net Sales</b>	<b>39,963</b>	<b>38,392</b>	<b>40,397</b>	<b>46,219</b>
yoy%	0.2%	-3.9%	5.2%	14.4%
Operating EBIDTA	4,721	4,173	4,570	5,285
Operating EBITDA margin %	11.7%	10.7%	11.2%	11.3%
<b>PAT</b>	<b>3,758</b>	<b>3,321</b>	<b>3,167</b>	<b>3,437</b>
yoy%	12.1%	-11.6%	-4.6%	8.5%
EPS	63.7	56.2	53.5	58.1

Profit and Loss for the year ended,					
Particulars	Q1FY17	Q1FY16	YoY%	Q4FY16	QoQ%
Total Revenue from operations	11943	10471	14.1%	11726	1.8%
Manufacturing expenses	9581	8236	16.3%	9387	2.1%
<b>Gross Profit</b>	<b>2361</b>	<b>2235</b>	<b>5.7%</b>	<b>2339</b>	<b>1.0%</b>
<b>Gross Profit Margin (%)</b>	<b>19.8%</b>	<b>21.3%</b>		<b>19.9%</b>	
EBITDA	1286	1245	3.3%	1068	20.4%
<b>EBITDA Margin (%)</b>	<b>10.8%</b>	<b>11.9%</b>		<b>9.1%</b>	
Depreciation and Amortization expenses	312	223		321	
PBIT	974	1021		747	
Other income	217	164	31.9%	114	89.9%
Interest expenses	24	39		38	
PBT	1257	1147	9.7%	829	51.6%
Provision for taxation	302	296		225	
<b>Net Profit</b>	<b>955</b>	<b>850</b>	<b>12.4%</b>	<b>605</b>	<b>58.0%</b>
other comprehensive income	3.7	1.8		12	
<b>Total comprehensive income</b>	<b>959</b>	<b>852</b>	<b>12.6%</b>	<b>617</b>	<b>55.4%</b>
Effective tax rate	24%	26%		27%	
<b>EPS</b>	<b>16.1</b>	<b>14.4</b>	<b>12.2%</b>	<b>10</b>	<b>57.9%</b>
<b>Segment Margins</b>					
Automotive segment	7.8%	8.6%		6.6%	
Farm equipment segment	18.8%	17.7%		12.9%	
other segments	8.8%	14.40%		-29.1%	

Source: Company data Ace Equity, Aриhant Research



Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY14	FY15	FY16	FY17 E
<b>Net Sales</b>	<b>39,963</b>	<b>38,392</b>	<b>40,397</b>	<b>46,219</b>
YoY%	0.2	(3.9)	5.2	14.4
Other Operating Income	545	554	488	555
<b>Income from Operations</b>	<b>40,509</b>	<b>38,945</b>	<b>40,885</b>	<b>46,774</b>
Materials Consumed	21,630	20,272	19,373	23,110
Total Expenditure	35,787	34,772	36,315	41,489
<b>Operating EBITDA</b>	<b>4,721</b>	<b>4,173</b>	<b>4,570</b>	<b>5,285</b>
Operating EBITDA margin %	11.7	10.7	11.2	11.3
Depreciation	863	975	1,109	1,447
Operating EBIT	3,858	3,199	3,462	3,839
Other Income	718	849	855	935
Interest	259	214	155	234
PBT before Excp Items	4,317	3,833	4,161	4,540
Exceptional item	53	336	69	50
<b>PBT</b>	<b>4,369</b>	<b>4,169</b>	<b>4,230</b>	<b>4,590</b>
Tax Expense	611	848	1,062	1,153
<b>Reported Net Profit</b>	<b>3,758</b>	<b>3,321</b>	<b>3,167</b>	<b>3,437</b>
YoY%	12.1	(11.6)	(4.6)	8.5
Effective Tax Rate	14.0	20.3	25.1	25.1
<b>Reported EPS</b>	<b>63.7</b>	<b>56.2</b>	<b>53.5</b>	<b>58.1</b>

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY14	FY15	FY16	FY17 E
<b>Operating Activities</b>				
<b>PBT before Excp Items</b>	<b>4,317</b>	<b>3,833</b>	<b>4,161</b>	<b>4,540</b>
Add Depr	863	975	1,109	1,447
Others	(346)	(372)	(303)	(399)
Total	4,834	4,436	4,967	5,588
Cash Taxes	(894)	(847)	(928)	(1,126)
Changes in Working Cap	(213)	(370)	1,439	1,131
<b>Cash Flow from Operations</b>	<b>3,728</b>	<b>3,219</b>	<b>5,479</b>	<b>5,593</b>
<b>Investing Activities</b>				
Change in investments	(703)	(389)	(1,374)	(2,561)
Capex	(1,704)	(2,035)	(2,172)	(1,941)
<b>Cash Flow from Investing</b>	<b>(2,407)</b>	<b>(2,423)</b>	<b>(3,546)</b>	<b>(4,502)</b>
<b>Financing Activities</b>				
<b>Dividends + Taxes paid</b>	<b>(894)</b>	<b>(961)</b>	<b>(846)</b>	<b>(805)</b>
Change in Non Curr Liab	(1,717)	(2,546)	(2,853)	(2,022)
<b>Cash Flow from Financing</b>	<b>(824)</b>	<b>(1,585)</b>	<b>(2,007)</b>	<b>(1,217)</b>
Opening Cash	1,164	1,706	917	843
Changes during year	497	(788)	(75)	(127)
<b>Closing Cash</b>	<b>1,706</b>	<b>917</b>	<b>843</b>	<b>716</b>

Source: Company data, Arihant Research

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY14	FY15	FY16	FY17 E
<b>Liabilities + Equity</b>				
(a) Share capital	295	296	296	296
(b) Reserves and surplus	16,496	18,959	21,411	26,077
<b>Shareholders' funds</b>	<b>16,791</b>	<b>19,255</b>	<b>21,707</b>	<b>26,373</b>
Non-current liab & Prov	5,731	4,716	4,012	3,391
Current liabilities	8,767	8,974	10,694	9,920
<b>Total - Equity and liabilities</b>	<b>31,289</b>	<b>32,945</b>	<b>36,413</b>	<b>39,684</b>
<b>Assets</b>				
Non-current assets				
Fixed assets	7,105	8,108	9,518	11,460
Long Term Inv	9,788	11,373	11,145	12,259
Loans + Adv + Others	3,018	3,232	4,057	4,484
Other non-current assets	89	103	59	73
Current assets				
Cash & bank balance	2,950	2,065	2,297	1,627
Other Current Assets	8,338.5	8,063.4	9,336	9,781
Sub-total - Current assets	11,289	10,128	11,634	11,408
<b>Total - Assets</b>	<b>31,289</b>	<b>32,945</b>	<b>36,413</b>	<b>39,684</b>

Ratio Analysis				
	FY14	FY15	FY16	FY17 E
<b>Profitability</b>				
<b>Operating EBITDA%</b>	<b>11.7</b>	<b>10.7</b>	<b>11.2</b>	<b>11.3</b>
Operating EBIT%	9.5	8.2	8.5	8.2
PAT%	9.3	8.5	7.7	7.3
<b>ROAE%</b>	<b>41.2</b>	<b>31.7</b>	<b>26.8</b>	<b>24.1</b>
<b>Du Pont ROAE breakup</b>				
PAT / Sales	9.4	8.7	7.8	7.4
Sales / Avg Total Assets	1.3	1.2	1.1	1.2
Avg Total Assets / Avg Eqty	1.9	1.7	1.7	1.5
<b>ROE</b>	<b>22.4</b>	<b>17.2</b>	<b>14.6</b>	<b>13.0</b>
<b>Other Ratios</b>				
<b>Current Ratio</b>	<b>1.3</b>	<b>1.1</b>	<b>1.1</b>	<b>1.2</b>
Long Term Debt / Equity	0.2	0.1	0.1	0.0
<b>EPS</b>	<b>63.7</b>	<b>56.2</b>	<b>53.5</b>	<b>58.1</b>
DPS	14.0	12.0	12.0	13.0
Dividend %	280.0	240.0	240.0	260.0
<b>Dividend Payout ratio</b>	<b>25.7</b>	<b>25.5</b>	<b>26.6</b>	<b>26.7</b>
<b>P/E</b>	<b>15.4</b>	<b>21.1</b>	<b>26.7</b>	<b>24.6</b>
BVPS	284.4	325.6	366.7	445.6
P/BV	3.0	2.6	3.9	3.2



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**Stock Rating**

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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